



Legislative Audit Division

State of Montana

Report to the Legislature

October 2006

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2006

Office of the Governor and Lieutenant Governor

This report contains three recommendations to the office. Major issues addressed in this report include:

- **Appointing a State Tax Appeal Board member at a salary exceeding the rate allowed under state law.**
- **Improving internal control processes.**
- **Accounting for activities in compliance with state law and state accounting policy.**

This report also contains disclosure issues related to the availability of refunds received from previous federal expenditures and equipment purchases made by other state agencies on behalf of the office.

**Direct comments/inquiries to:
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Room 160, State Capitol
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Helena MT 59620-1705**

06-23

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2007, will be issued by March 31, 2008. The Single Audit Report for the two fiscal years ended June 30, 2005, was issued on March 6, 2006. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

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Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

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Chief Deputy Legislative Auditor



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James Gillett
Jim Pellegrini

October 2006

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Office of the Governor and Lieutenant Governor (office) for the two fiscal years ended June 30, 2006. Our report contains three recommendations to the office to improve the office's compliance with state law and accounting policy. This report also contains disclosure issues related to the availability of refunds received from previous federal expenditures and equipment purchases made by other state agencies on behalf of the office. The office's response to each recommendation is contained at the end of the report, beginning on page B-3.

We thank the Governor, Lieutenant Governor, and their staffs for their assistance and cooperation throughout the audit.

Respectfully submitted,

/s/ Scott A. Seacat

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2006

Office of the Governor and Lieutenant Governor

Members of the audit staff involved in this audit were
Jeane Carstensen-Garrett, Geri Hoffman, Cindy S. Jorgenson,
Alexa O'Dell, and Sonia Powell.

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Elected, Appointed and Administrative Officials

Office of the Governor and Lieutenant Governor

Governor	Brian Schweitzer
Lieutenant Governor	John Bohlinger
Chief of Staff	Bruce Nelson
Centralized Services Administrator	Mary Jo Murray

For additional information concerning the Office of the Governor
and Lieutenant Governor contact:

Sarah Elliott, Communications Director
Governor's Office
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Helena MT 59620-0801
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Governor's Office

This report contains the results of our financial-compliance audit of the Office of the Governor and Lieutenant Governor (office) for the two fiscal years ended June 30, 2006. We issued a qualified opinion on the financial schedules contained in this report. The reader should use caution in relying on the information presented in the financial schedules, as well as the supporting data on the state's accounting system.

This report contains three recommendations to the office related to compliance with state law and state accounting policy.

This report also contains disclosure issues related to the availability of refunds received from previous federal expenditures and equipment purchases made by other state agencies on behalf of the office.

The listing below serves as a means of summarizing the recommendations contained in the report, the office's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the Governor establish salaries for State Tax Appeal Board appointees in compliance with state law 6

Office Response: Concur. See page B-3.

Recommendation #2

We recommend the office continue to encourage employees to retain and, when requested, submit support for purchasing card transactions 7

Office Response: Concur. See page B-3.

Recommendation #3

We recommend the office:

- A. Budget and record Citizens' Advocate activity related to DPHHS programs in the state special revenue fund, in accordance with state law.
- B. Record Citizens' Advocate activity to the proper accounts, in accordance with state accounting policy 8

Office Response: Concur. See page B-3.

Introduction

Introduction

We performed a financial-compliance audit of the Office of the Governor and Lieutenant Governor (office) for the two fiscal years ended June 30, 2006. The objectives of the audit were to:

1. Determine whether the office complied with applicable state and federal laws and regulations.
2. Obtain an understanding of the office's control systems and, if appropriate, make recommendations for improvement in the internal and management controls of the office.
3. Determine whether the office's financial schedules present fairly the results of operations for each of the two fiscal years ended June 30, 2006.

In accordance with section 5-13-307, MCA, we analyzed the cost to implement the recommendations and believe the costs are not significant to the office.

Areas of concern, if any, regarding compliance with laws and regulations and state accounting policy deemed not to have a significant effect on the successful operations of the office's programs are not specifically included in this report, but have been discussed with management.

Background

The office was created upon acceptance of Montana into the Union in 1889 and is provided for in Article VI of the Montana Constitution. The office had 61.76 full-time equivalent (FTE) positions in fiscal year 2005-06. Of those positions, there are 11 statutorily exempt positions and 18 personal staff exempt positions. These positions are exempt from the provisions of the state classification law. The following paragraphs discuss the various programs administered by the office.

Executive Office (21.85 FTE) - provides administrative, legal, and press support for the office. During fiscal year 2004-05, the executive office program also provided centralized services support for the office. The executive office oversees and directs the activities of executive branch agencies. In addition, the executive office administers the Office of Economic Opportunity.

Introduction

Lieutenant Governor (3.94 FTE) - performs duties prescribed by law and those delegated by the Governor.

Centralized Services (3.00 FTE) - provides centralized services support for the office. Prior to fiscal year 2005-06, this activity was accounted for in the Executive Office program.

Office of Budget and Program Planning (20.22 FTE) - assists the governor in planning, preparing, and administering the state budget; develops and evaluates alternative program plans for providing state government services; and, acts as the lead executive branch agency for compliance with the federal Single Audit Act.

Citizens' Advocate Office (1.50 FTE) - provides accessibility to state government for Montana citizens by providing information to citizens and acting as a referral service to state agencies.

Mental Disabilities Board of Visitors (5.00 FTE) - protects the rights of the mentally ill and the developmentally disabled. The Mental Health Ombudsman is also accounted for in this program.

Governor's Residence Operations (1.75 FTE) - maintains the governor's official residence.

Air Transportation (1.50 FTE) - provides transportation for the governor and the governor's staff. The governor's aircraft is available to other state agencies for a fee. Fee revenues are used for aircraft operations and maintenance costs.

Coordinator of Indian Affairs (3.00 FTE) - serves as the governor's liaison with the state Indian tribes, provides information and policy support on issues confronting Indians of Montana, and advises and makes recommendations to the legislative and executive branches on these issues. In addition, the State Tribal Economic Development Commission, which is administratively attached to the governor's office, has responsibilities for assisting, promoting, encouraging,

developing, and advancing economic prosperity and employment on Indian reservations in Montana.

Prior Audit Recommendations

The prior audit report for the two fiscal years ended June 30, 2004, did not contain any recommendations to the office.

Findings and Recommendations

State Tax Appeals Board Appointment

The Governor appointed a State Tax Appeal Board member at a salary exceeding that allowed by state law.

The State Tax Appeals Board (Board) prescribes rules for county tax appeal boards and hears appeals of tax related decisions made by county tax appeal boards or the Department of Revenue. The Board is attached to the Department of Administration.

In June 2006, a member of the Board terminated for personal reasons. The vacancy was filled in July 2006 when the Governor appointed a State Auditor's Office employee as the Board chairperson, and the employee transferred from the State Auditor's Office to the Board. The appointment letter dated June 20, 2006, specifies the employee's annual salary remains at that of the previous position, \$71,921, for a period of 180 days, at which time the annual salary will decrease to \$58,267. State law specifically requires Board members to be paid a salary equivalent to that of a grade 17 employee, with an additional 5 percent added to the presiding officer's salary. As provided in section 2-18-312, MCA, grade 17 employees can be paid an entry level salary of \$38,770 to a maximum salary of \$56,026. Effective October 1, 2006, the maximum salary for grade 17 employees increases to \$58,267. If the employee is paid the higher rate for the entire 180-day period, the excess wages received would be \$6,178.

The office was advised by the Department of Administration (department) that Montana Operations Manual Volume III, rule 1818, applied to the Board appointment. However, Montana Operations Manual Volume III, rule 1802, states that the pay plan rules, including rule 1818, do not apply to exempt positions specified in state law. The advice provided by the department conflicts with the pay plan rules they adopted.

Rule 1818 allows protection of an employee's salary up to 180 calendar days when an employee changes from an exempt position to a classified position, or when the position changes from an exempt position to a classified position. Members of boards and

Findings and Recommendations

commissions appointed by the Governor and members of personal staff are exempt from portions of the state's compensation statutes. As such, these positions are considered exempt positions. In addition, the state's payroll system classifies both the Board position and the employee's former position at the State Auditor's Office as exempt. Therefore, the employee's transfer from the State Auditor's Office to the Board is not eligible for the 180-day salary protection under rule 1818 because both positions are exempt. Because the law is specific on the salary rate for Board members, the Governor can set the salary between the entry and maximum range. At the time of the appointment, the maximum salary allowed for the Board chairperson, including the additional 5 percent for the presiding member, is \$58,827.

Recommendation #1

We recommend the Governor establish salaries for State Tax Appeal Board appointees in compliance with state law.

Support for Purchasing Card Expenditures

The office could not locate documentation supporting some purchasing card transactions.

As of July 2006, 28 office employees held purchasing cards for use in conducting state business. In order to obtain a purchasing card, the office requires each employee to sign the cardholder agreement, which specifies the card holder may be asked to produce receipts and statements to audit the use of the purchasing card. On a monthly basis, the office asks cardholders to certify that the activity on their purchasing card transaction report is valid. In addition, the office matches purchasing card transactions to receipts submitted by office staff and identifies purchases for which no receipt was submitted by marking the purchasing card transaction report.

We reviewed the office's purchasing card transaction reports for February through June 2006. Out of the 559 transactions included on the reports, we noted 39 of the transactions totaling \$7,208 were marked as not having receipts. During the audit, we noted 3 other

Findings and Recommendations

purchasing card transactions for which the office could not provide supporting documentation. Of the 42 purchasing card transactions we identified as missing support, 12 transactions were for lodging expenses and 8 transactions were for airline charges. Without obtaining documentation supporting each purchasing card transaction, the office's ability to demonstrate compliance with state travel policy is impaired.

According to office staff, an internal review of all purchasing card transactions completed for fiscal years 2002-03 and 2003-04 indicated receipts were not obtained for 15 percent of the transactions. Based on the results of our audit, the office has made progress in obtaining support for purchasing card transactions.

Recommendation #2

We recommend the office continue to encourage employees to retain and, when requested, submit support for purchasing card transactions.

Citizens' Advocate Activity

Certain Citizens' Advocate activities should be accounted for in the state special revenue fund, and should be classified as charges for services on the state's accounting records.

The Citizens' Advocate Office bills the Department of Public Health and Human Services (DPHHS) each month based on the volume of calls received for the Temporary Assistance for Needy Families, Food Stamps, and Medicaid programs. The office records federal revenue in the federal special revenue fund and transfers the related expenditures activity, originally accounted for in the state's general fund, to the federal special revenue fund. Office staff indicated the activity has been budgeted as miscellaneous federal revenue in the federal special revenue fund, and therefore must be recorded as such.

Proper Fund

Section 17-2-102, MCA, specifies the state special revenue fund consists of money and proceeds from state and other nonfederal sources that is earmarked for the purposes of defraying particular

Findings and Recommendations

costs, while the federal special revenue fund consists of money received directly from federal sources. The Citizens' Advocate activity is included in the state's general appropriations act in the federal special revenue fund. However, state law cannot be modified by an appropriations act. Because the proceeds from the calls received for DPHHS programs are used to defray the cost of the Citizens' Advocate program and because the payment is not received directly from a federal source, the Citizens' Advocate activity should be accounted for in the state special revenue fund.

Proper Revenue Account

State accounting policy indicates only federal revenues received directly from a federal agency or subgranted from another state agency should be recorded as federal revenues on the state's accounting records. State accounting policy further defines charges for services revenue as revenue from services provided by the state to other state agencies or other entities. Documentation supporting the bills to DPHHS indicates the underlying activity is a vendor or service relationship rather than a subgrant relationship. Therefore, the revenue resulting from calls for DPHHS programs should be recorded as charges for services on the state's accounting records.

Summary

As a result of the classification outlined above, the federal revenue in the federal special revenue fund is overstated and charges for services revenue in the state special revenue fund is understated by \$17,148 and \$19,104 in fiscal years 2005-06 and 2004-05, respectively.

Recommendation #3

We recommend the office:

- A. Budget and record Citizens' Advocate activity related to DPHHS programs in the state special revenue fund, in accordance with state law.**
- B. Record Citizens' Advocate activity to the proper accounts, in accordance with state accounting policy.**

Disclosure Issues

Availability of Refunds of Jobs and Growth Tax Relief Funds

The funds remaining from the Jobs and Growth Relief Reconciliation Act are subject to appropriation of by the Legislature.

The state was awarded \$50 million in federal funds as part of the federal Jobs and Growth Tax Relief Reconciliation Act (JGTRA) of 2003. Prior to receiving the cash, the Governor signed a certification specifying the funds would be used for the types of expenditures permitted under the most recently approved budget for the state. The most recent budget was established by the 2003 Legislature.

The federal funds were received in two \$25 million payments, one each in fiscal year 2002-03 and fiscal year 2003-04. During prior audits, we confirmed funds were obligated through the budget amendment process by September 30, 2004, as required. We also confirmed the \$50 million has been expended by various state agencies, as authorized by the governor's office.

The state received refunds related to some of the original expenditures of JGTRA funds. There are two interpretations regarding the accounting for and use of the refunds. Because the JGTRA funds replaced state budget authority, the refunds have lost their federal revenue identity. As such, the most appropriate placement of the refund may be to the state's general fund. However, federal regulations specify that for expenditures to be allowable under federal awards, the cost must be net of all applicable credits. Applicable credits refer to receipts that offset or reduce expense items chargeable to federal awards, including amounts received from the federal government. In this instance, the only allowable uses for the refunds would be for expenditures permitted under the budget established by the 2003 Legislature.

In fiscal years 2003-04 and 2004-05, the state received refunds from the Federal Emergency Management Agency totaling \$2,021,606 as part of the cost settlement process for fires on federal lands. In fiscal years 2003-04 and 2004-05, the state received revenue from

Disclosure Issues

Northwestern Energy totaling \$353,063 related to the bankruptcy case for which some of the JGTRA funds were originally used to defend. The state deposited these refunds to the general fund.

Regardless of the determination made on accounting for the refunds, the refunds are now subject to appropriation by the legislature. Section 17-7-402, MCA, specifies that budget amendments for additional federal revenue may be approved by the approving authority so long as the appropriation authority does not extend beyond the end of the federal fiscal year following the end of the state's biennium. This state law requires the proposals for appropriation of known funds to be presented to the legislature. Since the \$2,021,606 was received prior to the 2005 legislative session, and because there is no new federal revenue as a result of the refunds, the money could not be spent under a budget amendment after June 30, 2005. These moneys are subject to appropriation authority approved by the legislature.

Accounting for Property

Transactions for computer equipment donated by other state agencies were recorded differently on the state's accounting records.

The office follows a four-year rotation for computer replacement. In fiscal year 2005-06, the computers used by the Office of Budget and Program Planning (OBPP) were scheduled to be replaced, but the amount budgeted for the equipment replacement was not sufficient to meet the cost of the computers needed by OBPP. The office requested, and the Department of Revenue and the Department of Transportation each agreed to purchase the computer equipment on behalf of the office. State policy requires the necessary transaction to be recorded to a specific ledger on the state's accounting system.

In cooperation with the other departments, as well as the Department of Administration, two journal entries were used to account for the activity. The transaction with the Department of Transportation was appropriately recorded, but the transaction with the Department of Revenue was recorded to the wrong ledger on the state's accounting

system. As a result, the office's revenues and expenditures are each overstated by \$11,339, for fiscal year 2005-06. We have referred this activity to other audits for further review.

Independent Auditor's Report and Office Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Office of the Governor and Lieutenant Governor for each of the fiscal years ended June 30, 2006, and 2005. The information contained in these financial schedules is the responsibility of the office's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the office's assets and liabilities.

The office accounted for certain Citizens' Advocate revenues and expenditures in the Federal Special Revenue Fund rather than the State Special Revenue Fund. The office also misclassified the revenue on the state's accounting system. As a result, Federal revenue in the Federal Special Revenue Fund is overstated and Charges for Services revenue in the State Special Revenue Fund is understated by \$17,148 and \$19,104 on the Schedules of Total Revenues & Transfers-In for fiscal year 2005-06 and fiscal year 2004-05, respectively. In addition, the beginning and ending fund balances are overstated in the Federal Special Revenue Fund by \$21,189 and \$17,556 for fiscal year 2005-06, and by \$23,503 and \$21,189 for fiscal year 2004-05, respectively, on the Schedules of Changes in Fund Balances. Budgeted Revenues and Transfers-In and Budgeted Expenditures and Transfers-Out are overstated by \$17,148 and \$20,781, respectively, in the Federal Special Revenue Fund on the Schedule of Changes in Fund

Balances for fiscal year 2005-06. Budgeted Revenues and Transfers-In and Budgeted Expenditures and Transfers-Out are each overstated by \$19,104 and \$21,418, respectively, in the Federal Special Revenue Fund on the Schedule of Changes in Fund Balances for fiscal year 2004-05.

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Office of the Governor and Lieutenant Governor for each of the two fiscal years ended June 30, 2006, and 2005, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

August 23, 2006

GOVERNOR'S OFFICE
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund
FUND BALANCE: July 1, 2005	\$ <u>(463,060)</u>	\$ <u>718,004</u>	\$ <u>19,964</u>
ADDITIONS			
Budgeted Revenues & Transfers-In	12,444	216,521	17,148
NonBudgeted Revenues & Transfers-In	1,207	17,394	
Prior Year Revenues & Transfers-In Adjustments		(2,092)	
Direct Entries to Fund Balance	<u>5,096,768</u>	<u>64,091</u>	<u>45,361</u>
Total Additions	<u>5,110,419</u>	<u>295,914</u>	<u>62,509</u>
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	5,183,330	306,829	64,916
NonBudgeted Expenditures & Transfers-Out	10,167	5,974	
Prior Year Expenditures & Transfers-Out Adjustments	<u>(40,035)</u>		
Total Reductions	<u>5,153,462</u>	<u>312,803</u>	<u>64,916</u>
FUND BALANCE: June 30, 2006	\$ <u><u>(506,103)</u></u>	\$ <u><u>701,115</u></u>	\$ <u><u>17,557</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

GOVERNOR'S OFFICE
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>
FUND BALANCE: July 1, 2004	\$ <u>(493,336)</u>	\$ <u>780,184</u>	\$ <u>(18,881)</u>
ADDITIONS			
Budgeted Revenues & Transfers-In	6,325	141,201	29,874
NonBudgeted Revenues & Transfers-In	1,585	95	
Prior Year Revenues & Transfers-In Adjustments		1,306	40,112
Direct Entries to Fund Balance	<u>4,891,030</u>	<u>(57,904)</u>	<u>36,814</u>
Total Additions	<u>4,898,940</u>	<u>84,698</u>	<u>106,800</u>
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	4,746,277	146,877	163,001
NonBudgeted Expenditures & Transfers-Out	6,831		
Prior Year Expenditures & Transfers-Out Adjustments	<u>115,556</u>	<u>1</u>	<u>(95,046)</u>
Total Reductions	<u>4,868,664</u>	<u>146,878</u>	<u>67,955</u>
FUND BALANCE: June 30, 2005	\$ <u><u>(463,060)</u></u>	\$ <u><u>718,004</u></u>	\$ <u><u>19,964</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

GOVERNOR'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Taxes	\$ 1,207			\$ 1,207
Charges for Services		\$ 11,453		11,453
Investment Earnings		4,848		4,848
Miscellaneous	1,105	17,394		18,499
Grants, Contracts, Donations and Abandonments		198,128		198,128
Federal			\$ 17,148	17,148
Capital Contributions	<u>11,339</u>			<u>11,339</u>
Total Revenues & Transfers-In	<u>13,651</u>	<u>231,823</u>	<u>17,148</u>	<u>262,622</u>
Less: Nonbudgeted Revenues & Transfers-In	1,207	17,394		18,601
Prior Year Revenues & Transfers-In Adjustments		<u>(2,092)</u>		<u>(2,092)</u>
Actual Budgeted Revenues & Transfers-In	<u>12,444</u>	<u>216,521</u>	<u>17,148</u>	<u>246,113</u>
Estimated Revenues & Transfers-In	<u>14,383</u>	<u>243,079</u>	<u>20,000</u>	<u>277,462</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (1,939)</u>	<u>\$ (26,558)</u>	<u>\$ (2,852)</u>	<u>\$ (31,349)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Taxes	\$ (563)			\$ (563)
Charges for Services		\$ (8,548)		(8,548)
Investment Earnings		1,347		1,347
Miscellaneous	(1,375)			(1,375)
Grants, Contracts, Donations and Abandonments		(19,357)		(19,357)
Federal			\$ (2,852)	(2,852)
Capital Contributions	<u>(1)</u>			<u>(1)</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (1,939)</u>	<u>\$ (26,558)</u>	<u>\$ (2,852)</u>	<u>\$ (31,349)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

GOVERNOR'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Taxes	\$ 705	\$ 15	\$ 66	\$ 786
Investment Earnings		3,055		3,055
Miscellaneous	7,205	1,386		8,591
Grants, Contracts, Donations and Abandonments		138,146		138,146
Federal			69,920	69,920
Total Revenues & Transfers-In	<u>7,910</u>	<u>142,602</u>	<u>69,986</u>	<u>220,498</u>
Less: Nonbudgeted Revenues & Transfers-In	1,585	95		1,680
Prior Year Revenues & Transfers-In Adjustments		1,306	40,112	41,418
Actual Budgeted Revenues & Transfers-In	<u>6,325</u>	<u>141,201</u>	<u>29,874</u>	<u>177,400</u>
Estimated Revenues & Transfers-In	100	168,876	40,495	209,471
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 6,225</u>	<u>\$ (27,675)</u>	<u>\$ (10,621)</u>	<u>\$ (32,071)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Charges for Services		\$ (41,000)		(41,000)
Investment Earnings		3,055		3,055
Miscellaneous	\$ 6,225			6,225
Grants, Contracts, Donations and Abandonments		10,270		10,270
Federal			\$ (10,621)	(10,621)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 6,225</u>	<u>\$ (27,675)</u>	<u>\$ (10,621)</u>	<u>\$ (32,071)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

GOVERNOR'S OFFICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Air Transportation Program</u>	<u>Centralized Services Division</u>	<u>Citizens' Advocate Office</u>	<u>Coordinator of Indian Affairs</u>	<u>Executive Office Program</u>	<u>Governor's Residence Operations</u>	<u>Lieutenant Governor's Office</u>	<u>Mental Disabilities Board of Visitors</u>	<u>Office of Budget & Program Planning</u>	<u>Total</u>
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT										
Personal Services										
Salaries	\$ 69,524	\$ 127,435	\$ 63,556	\$ 101,635	\$ 1,196,108	\$ 40,421	\$ 204,717	\$ 188,848	\$ 978,097	\$ 2,970,341
Employee Benefits	20,042	37,091	19,937	26,618	308,965	17,840	54,803	64,185	253,930	803,411
Total	<u>89,566</u>	<u>164,526</u>	<u>83,493</u>	<u>128,253</u>	<u>1,505,073</u>	<u>58,261</u>	<u>259,520</u>	<u>253,033</u>	<u>1,232,027</u>	<u>3,773,752</u>
Operating Expenses										
Other Services	10,728	6,808	3,350	10,076	688,404	5,303	9,642	30,215	28,297	792,823
Supplies & Materials	84,366	43,183	149	6,772	54,599	44,332	2,779	4,804	26,063	267,047
Communications	2,233	3,739	9,418	2,680	68,969	431	4,861	8,182	16,034	116,547
Travel	23,209	84		14,065	119,160	215	11,142	20,221	6,532	194,628
Rent				3,864	75,797		11,865	3,602	42,528	137,656
Repair & Maintenance	76,704			457	7,312	4,606	925	2,317	3,022	95,343
Other Expenses	4,334	1,964		464	91,548	1,380	2,731	1,330	38,295	142,046
Total	<u>201,574</u>	<u>55,778</u>	<u>12,917</u>	<u>38,378</u>	<u>1,105,789</u>	<u>56,267</u>	<u>43,945</u>	<u>70,671</u>	<u>160,771</u>	<u>1,746,090</u>
Equipment & Intangible Assets										
Equipment									11,339	11,339
Total									<u>11,339</u>	<u>11,339</u>
Total Expenditures & Transfers-Out	<u>\$ 291,140</u>	<u>\$ 220,304</u>	<u>\$ 96,410</u>	<u>\$ 166,631</u>	<u>\$ 2,610,862</u>	<u>\$ 114,528</u>	<u>\$ 303,465</u>	<u>\$ 323,704</u>	<u>\$ 1,404,137</u>	<u>\$ 5,531,181</u>
EXPENDITURES & TRANSFERS-OUT BY FUND										
General Fund	\$ 284,429	\$ 220,304	\$ 75,629	\$ 139,394	\$ 2,371,626	\$ 114,528	\$ 303,465	\$ 323,704	\$ 1,320,383	\$ 5,153,462
State Special Revenue Fund	6,711			27,237	195,101				83,754	312,803
Federal Special Revenue Fund			20,781		44,135					64,916
Total Expenditures & Transfers-Out	<u>291,140</u>	<u>220,304</u>	<u>96,410</u>	<u>166,631</u>	<u>2,610,862</u>	<u>114,528</u>	<u>303,465</u>	<u>323,704</u>	<u>1,404,137</u>	<u>5,531,181</u>
Less: Nonbudgeted Expenditures & Transfers-Out					4,801				11,339	16,140
Prior Year Expenditures & Transfers-Out Adjustments	<u>3,858</u>			<u>565</u>	<u>(27,348)</u>	<u>170</u>	<u>633</u>	<u>217</u>	<u>(18,129)</u>	<u>(40,034)</u>
Actual Budgeted Expenditures & Transfers-Out	<u>287,282</u>	<u>220,304</u>	<u>96,410</u>	<u>166,066</u>	<u>2,633,409</u>	<u>114,358</u>	<u>302,832</u>	<u>323,487</u>	<u>1,410,927</u>	<u>5,555,075</u>
Budget Authority	<u>306,276</u>	<u>223,036</u>	<u>97,641</u>	<u>2,266,037</u>	<u>2,967,827</u>	<u>115,539</u>	<u>309,162</u>	<u>327,215</u>	<u>4,742,335</u>	<u>11,355,068</u>
Unspent Budget Authority	<u>\$ 18,994</u>	<u>\$ 2,732</u>	<u>\$ 1,231</u>	<u>\$ 2,099,971</u>	<u>\$ 334,418</u>	<u>\$ 1,181</u>	<u>\$ 6,330</u>	<u>\$ 3,728</u>	<u>\$ 3,331,408</u>	<u>\$ 5,799,993</u>
UNSPENT BUDGET AUTHORITY BY FUND										
General Fund	\$ 5,705	\$ 2,732	\$ 1,231	\$ 7,207	\$ 246,789	\$ 1,181	\$ 6,330	\$ 3,728	\$ 1,342,015	\$ 1,616,918
State Special Revenue Fund	13,289			92,764	73,399				1,411,703	1,591,155
Federal Special Revenue Fund				2,000,000	14,230				477,690	2,491,920
Internal Service Fund									100,000	100,000
Unspent Budget Authority	<u>\$ 18,994</u>	<u>\$ 2,732</u>	<u>\$ 1,231</u>	<u>\$ 2,099,971</u>	<u>\$ 334,418</u>	<u>\$ 1,181</u>	<u>\$ 6,330</u>	<u>\$ 3,728</u>	<u>\$ 3,331,408</u>	<u>\$ 5,799,993</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

GOVERNOR'S OFFICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	<u>Air Transportation Program</u>	<u>Citizens' Advocate Office</u>	<u>Coordinator of Indian Affairs</u>	<u>Executive Office Program</u>	<u>Governor's Residence Operations</u>	<u>Lieutenant Governor's Office</u>	<u>Mental Disabilities Board of Visitors</u>	<u>Office of Budget & Program Planning</u>	<u>Total</u>
Personal Services									
Salaries	\$ 34,700	\$ 61,105	\$ 63,339	\$ 1,182,440	\$ 27,048	\$ 136,982	\$ 185,260	\$ 949,117	\$ 2,639,991
Employee Benefits	7,030	20,620	17,221	282,498	15,434	35,483	62,007	245,257	685,550
Total	<u>41,730</u>	<u>81,725</u>	<u>80,560</u>	<u>1,464,938</u>	<u>42,482</u>	<u>172,465</u>	<u>247,267</u>	<u>1,194,374</u>	<u>3,325,541</u>
Operating Expenses									
Other Services	10,202	2,961	29,228	703,362	3,641	9,305	20,607	80,536	859,842
Supplies & Materials	68,720	749	2,518	87,014	30,793	1,642	3,618	21,239	216,293
Communications	2,039	8,667	4,786	52,016	152	3,473	6,794	11,109	89,036
Travel	11,105		3,923	167,539	882	16,105	19,418	7,715	226,687
Rent			3,648	72,587		10,263	3,212	40,056	129,766
Repair & Maintenance	65,346		441	6,694	1,177	1,116	2,022	2,406	79,202
Other Expenses	388	75	331	113,963	1,758	1,708	2,576	30,144	150,943
Total	<u>157,800</u>	<u>12,452</u>	<u>44,875</u>	<u>1,203,175</u>	<u>38,403</u>	<u>43,612</u>	<u>58,247</u>	<u>193,205</u>	<u>1,751,769</u>
Equipment & Intangible Assets									
Equipment				6,187					6,187
Total				<u>6,187</u>					<u>6,187</u>
Total Expenditures & Transfers-Out	\$ <u>199,530</u>	\$ <u>94,177</u>	\$ <u>125,435</u>	\$ <u>2,674,300</u>	\$ <u>80,885</u>	\$ <u>216,077</u>	\$ <u>305,514</u>	\$ <u>1,387,579</u>	\$ <u>5,083,497</u>
EXPENDITURES & TRANSFERS-OUT BY FUND									
General Fund	\$ 199,530	\$ 72,758	\$ 98,408	\$ 2,481,558	\$ 80,885	\$ 216,077	\$ 340,613	\$ 1,378,835	\$ 4,868,664
State Special Revenue Fund			27,027	111,107				8,744	146,878
Federal Special Revenue Fund		21,419		81,635			(35,099)		67,955
Total Expenditures & Transfers-Out	<u>199,530</u>	<u>94,177</u>	<u>125,435</u>	<u>2,674,300</u>	<u>80,885</u>	<u>216,077</u>	<u>305,514</u>	<u>1,387,579</u>	<u>5,083,497</u>
Less: Nonbudgeted Expenditures & Transfers-Out				5,615				1,216	6,831
Prior Year Expenditures & Transfers-Out Adjustments	75		96	19,816	51	581	(638)	530	20,511
Actual Budgeted Expenditures & Transfers-Out	<u>199,455</u>	<u>94,177</u>	<u>125,339</u>	<u>2,648,869</u>	<u>80,834</u>	<u>215,496</u>	<u>306,152</u>	<u>1,385,833</u>	<u>5,056,155</u>
Budget Authority	246,310	95,500	2,276,098	12,992,135	84,762	247,406	397,779	2,707,987	19,047,977
Unspent Budget Authority	\$ <u>46,855</u>	\$ <u>1,323</u>	\$ <u>2,150,759</u>	\$ <u>10,343,266</u>	\$ <u>3,928</u>	\$ <u>31,910</u>	\$ <u>91,627</u>	\$ <u>1,322,154</u>	\$ <u>13,991,822</u>
UNSPENT BUDGET AUTHORITY BY FUND									
General Fund	\$ 5,855	\$ 247	\$ 35,374	\$ 42,628	\$ 3,928	\$ 31,910	\$ 3,147	\$ 493,892	\$ 616,981
State Special Revenue Fund	41,000		115,385	10,242,273				828,262	11,226,920
Federal Special Revenue Fund		1,076	2,000,000	58,365			88,480		2,147,921
Unspent Budget Authority	\$ <u>46,855</u>	\$ <u>1,323</u>	\$ <u>2,150,759</u>	\$ <u>10,343,266</u>	\$ <u>3,928</u>	\$ <u>31,910</u>	\$ <u>91,627</u>	\$ <u>1,322,154</u>	\$ <u>13,991,822</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

Office of the Governor and Lieutenant Governor

Notes to the Financial Schedules

For the two Fiscal Years Ended June 30, 2006

1. Summary of Significant Accounting Policies

Basis of Accounting

The office uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue). In applying the modified accrual basis, the office records:

Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the office to record the cost of employees' annual and sick leave when used or paid.

Expenditures and expenses may include: entire budgeted service contracts even though the office receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The office uses the following funds:

Governmental Fund Category

General Fund – to account for all financial resources except those required to be accounted for in another fund.

State Special Revenue Fund – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. The office's state special revenue accounts

Notes to the Financial Schedules

include the Environmental Contingency Resource Indemnity Trust and the State Tribal Economic Development.

Federal Special Revenue Fund – to account for activities funded from federal revenue sources, primarily associated with the Jobs and Growth Tax Relief program as well as certain Citizens' Advocate activities.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The office has authority to pay obligations from the statewide General Fund within its appropriation limits. The office expends cash or other assets from the statewide fund when it pays General Fund obligations. The office's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2006 and June 30, 2005.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General, State Special Revenue, and Federal Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

4. Citizens' Advocate Office Activity

The office bills the Department of Public Health and Human Services based on the volume of calls received for the Temporary Assistance for Needy Families, Food Stamps, and Medicaid programs. The office records federal revenue in the federal special revenue fund and transfers the related expenditures activity, originally recorded in the state's general fund, to the federal special revenue fund. In accordance with state law and state accounting policy, this activity should be accounted for as charges for services revenue and expenditures in the state special revenue fund. The misclassification of Citizens' Advocate revenue and expenditure activity is the cause of the opinion qualification on the office's Schedules of Total Revenues & Transfers-In.

5. Centralized Services Division

Certain office functions provide services to all other areas of the office. During fiscal year 2004-05, these functions were accounted for in the Executive Office program on the Schedule of Total Expenditures & Transfers-Out. In fiscal year 2005-06, the office created a new division and now accounts for these activities in the Centralized Services Division program.

6. Unspent Budget Authority

The significant unspent budget amounts on the Schedules of Total Expenditures & Transfers-Out relate to the following programs:

Office of Budget and Program Planning – fiscal year 2005-06 amounts relate to the personal services contingency authorized by House Bill 447 enacted by the 2005 Legislature. The fiscal year 2004-05 amounts relate to the personal services contingency authorized by House Bill 13 enacted by the 2003 Legislature. This authority is transferred to other state agencies as needed for personal services authority.

Coordinator of Indian Affairs – the \$2 million in Federal Special Revenue Fund authority was appropriated by House Bill 18 enacted by the 2005 Legislature, and House Bill 2 enacted by the 2003 Legislature, in fiscal years 2005-06 and 2004-05, respectively. The authority is provided for federal awards, in the event the program applies for and receives a federal grant award.

Executive Office – in fiscal year 2004-05, the \$10 million remaining in the State Special Revenue Fund was appropriated to the Office of Economic Development by the 2003 Legislature as part of House Bill 564. The appropriation was to provide financial assistance for workforce training grants.

Office Response

OFFICE OF THE GOVERNOR
STATE OF MONTANA

BRIAN SCHWEITZER
GOVERNOR



JOHN BOHLINGER
LT. GOVERNOR

October 24, 2006

Scott A. Seacat, Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena, MT 59620-1705

Dear Mr. Seacat:

Following are the Governor's Office responses to the audit of the Montana Office of Governor and Lieutenant Governor for the two fiscal years ending June 30, 2006.

Recommendation #1: We recommend the Governor establish salaries for State Tax Appeal Board appointees in compliance with state law.

Response: We concur that the Governor should establish salaries for State Tax Appeal Board appointees in compliance with state law and believe he has done so based on advice from Department of Administration legal counsel, a copy of which is attached to this response.

Recommendation #2: We recommend the office continue to encourage employees to retain and, when requested, submit support for purchasing card transactions.

Response: We concur with this recommendation. The Governor's Office has adopted a new policy which strictly limits the use of procurement cards, and which makes it mandatory that individual employees provide receipts for expenses before they are reimbursed.

Recommendation #3: We recommend the office:

A. Budget and record Citizens' Advocate activity related to DPHHS programs in the state special revenue fund, in accordance with state law.

B. Record Citizens' Advocate activity in the proper accounts, in accordance with state accounting policy.

Response: We concur with this recommendation. However, since this activity has been appropriated since the early 1990s in House Bill 2, we cannot correct this without legislative action. The Governor's Office has submitted a decision package in its 2008-2009 budget request which transfers this activity from the federal special revenue fund to the state special revenue fund.

Sincerely,

A handwritten signature in cursive script that reads "Bruce Nelson".

Bruce Nelson
Chief of Staff

Enclosure

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